

February 10, 2017

Defense Primer: Procurement

Though the common use of the word *procurement* implies the buying of all things, within the defense community procurement refers to the appropriations title by that name.

Procurement is the DOD appropriations title that provides funds to purchase major equipment. DOD classes procurement appropriations as nonconstruction-related *investment costs*, or the costs to acquire capital assets, such as an F-35 Joint Strike Fighter or a Virginia-class submarine. Investment costs are distinguished from *expenses*, which are consumed in the operating of the Department.

At over \$100 billion of annual funding in recent years, the procurement title represents about 20% of the base defense budget. DOD uses these funds to buy several different types of materiel, including

- new items easily recognizable as military hardware, such as aircraft, ships and armored vehicles, but also other major equipment (e.g., radios and satellites);
- upgrades to existing equipment, including extending their lives or remanufacturing existing vehicles;
- support equipment and components for major systems;
- weapons and ammunition, ranging from air-to-air missiles to rounds for individual rifles;
- spare parts, particularly those that are centrally managed; and
- classified programs.

These categories are reflected in the major accounts within the procurement title (see **Table 1**). Classified programs account for the bulk of the Department of the Air Force Other Procurement account, which makes it the largest single account within the procurement title over time.

Procurement funding authorized in a given fiscal year can usually be obligated over a period of three years. The largest exception is U.S. Navy Shipbuilding and Conversion funding, which is available for five years.

What are special cases of procurement?

In general, the U.S. government pursues a policy of full funding for procurement, meaning that the total estimated cost of each unit must be funded in the year it is budgeted.

In a handful of cases, programs are procured using *incremental funding*. Incremental funding provides only a portion of the total cost of a system at a time. Usually, incremental funding is used to mitigate peaks and valleys in annual budgets caused by the cost of one item significantly

changing the funding level of the account. It has principally been used to procure certain ships and satellites.

Table 1. Top 10 Procurement Appropriation Subtitles, by Average Enacted Amounts, FY2012-2016
in unadjusted U.S. dollars

Procurement Category	U.S. \$ (billions)
Dept. of the Air Force – Other	\$19.9
Dept. of the Navy – Aircraft	\$16.6
Dept. of the Navy – Shipbuilding and Conversion	\$15.7
Dept. of the Air Force – Aircraft	\$12.2
Dept. of the Army – Other	\$6.6
Dept. of the Navy – Other	\$5.9
Dept. of the Army – Aircraft	\$5.8
Defensewide – Procurement	\$4.9
Dept. of the Air Force – Missile	\$4.6
Dept. of the Navy – Weapons	\$3.0
Remaining twelve titles	\$12.3
<i>Total</i>	<i>\$107.5</i>

Source: CRS analysis of FY2017 Public Budget Authority Database, from OMB website at <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2017/assets/budauth.xls>.

Congress sometimes authorizes *multiyear procurement* (MYP) for programs. MYP can achieve savings by committing to buy items over multiple years from a contractor for a reduced price per unit. Title 10, Section 2306b of the *United States Code*, the statute authorizing MYP, requires significant savings and stable funding and design, among other standards. Recent examples include Virginia-class submarines, DDG-51 destroyers, UH-60 Blackhawk helicopters, MV-22 tilt-rotor Ospreys, and C-130J cargo aircraft.

More commonly, programs receive *advance procurement*, which is funding for components of a unit that need to be purchased long before the unit itself is purchased. For programs using MYP, advance procurement may also be used to achieve economic order quantity, which is buying enough to minimize the total cost. The FY2017 budget request included advance procurement for 24 programs, including the Columbia-class submarine and TOW 2 anti-tank missile.

When does a program enter procurement?

Programs officially enter procurement after they receive Milestone C approval in the Defense Acquisition System. Prior to moving to procurement, programs are considered to be in development and are generally funded through the Research, Development, Test and Evaluation appropriation title. Some programs will receive procurement funds before a formal Milestone C approval.

**How else does DOD purchase goods and services?
How does DOD procurement relate to defense contracting?**

DOD is authorized and appropriated procurement funding for nonconstruction investments. DOD uses funding other than procurement to purchase services (e.g., research, architectural design, or cleaning services) and smaller goods (e.g., gauze or light bulbs) because such purchases are considered to be expenses rather than investments and are funded in other parts of DOD's budget.

Goods and services from the private sector are purchased through contracts and are accounted for as contract obligations. These individual activities—most of which are too granular to be captured in appropriations data—are tracked at the level of obligations. *Obligation* is the term used when agencies enter into contracts, employ personnel, or otherwise commit to spending money.

Relevant Statute

Title 10, U.S. Code, Part IV—Service, Supply, and Procurement.

CRS Products

For information on the Defense Acquisition System, see CRS Report RL34026, *Defense Acquisitions: How DOD Acquires Weapon Systems and Recent Efforts to Reform the Process*, by Moshe Schwartz .

For information on the full funding policy in DOD procurement, see CRS Report RL31404, *Defense Procurement: Full Funding Policy—Background, Issues, and Options for Congress*, by Ronald O'Rourke and Stephen Daggett.

For information on special cases of procurement, see CRS Report R41909, *Multiyear Procurement (MYP) and Block Buy Contracting in Defense Acquisition: Background and Issues for Congress*, by Ronald O'Rourke and Moshe Schwartz.

For information on Research, Development, Test and Evaluation funding see CRS In Focus IF10553, *Defense Primer: RDT&E*, by John F. Sargent Jr.

For information on services, see CRS In Focus IF10548, *Defense Primer: U.S. Defense Industrial Base*, by Daniel H. Else and Sean I. Mills.

For general information on defense procurement and contract acquisition, see CRS Report R44010, *Defense Acquisitions: How and Where DOD Spends and Reports Its Contracting Dollars*, by Moshe Schwartz et al.

For information on the annual National Defense Authorization Act (which authorizes Congress to appropriate funds for DOD procurement) and Department of Defense Appropriations Act (which appropriates, among other things, DOD procurement funds), see CRS Report R44454, *Defense: FY2017 Budget Request, Authorization, and Appropriations*, by Pat Towell and Lynn M. Williams.

Other Resources

Department of Defense Comptroller, Defense Budget Materials, <http://comptroller.defense.gov/Budget-Materials>.

General Services Administration, Federal Procurement Data System, <https://www.fpds.gov>.

Russell Rumbaugh, rrumbaugh@crs.loc.gov, 7-2212

Heidi M. Peters, hpeters@crs.loc.gov, 7-0702

IF10599